

Message Text

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ACTION ARA-14

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C O R R E C T E D C O P Y-TEXT (THROUGHOUT)

E.O. 11652: N/A
TAGS: EAID, EINV, EMIN, GY, US
SUBJECT: UPPER MAZARUNI HYDROPOWER/ALUMINUM PROJECT:RENEWED
INTEREST

REF: A. GEORGETOWN 1602 B. STATE 104952

BEGIN SUMMARY. ALTHOUGH CURRENT ECONOMIC CRISIS HAS CAUSED
VIRTUALLY ALL WORK TO BE SUSPENDED ON SUBJECT PROJECT, THE GOG
CONTINUES TO PROMOTE ITS IMPLEMENTATION, SEEKING BOTH FINANCING
AND TECHNOLOGY. DURING THE PRIME MINISTER'S UK VISIT,
RHINISTER OF ENERGY AND NATURAL RESOURCES HUBERT JACK TOOK
TIME OUT TO MEET WITH A BRITISH INDUSTRIAL PROMOTER NAMED
BROWNER, FORMERLY WITH BRITISH SMELTER, TO DISCUSS "PRELIMI-
NARY ENGINEERING" FOR THE PROJECT. ESTIMATED COST: 2.5
MILLION BRITISH POUNDS. BROWNER INDICATED THAT FINANCING
WOULD BE AVAILABLE FROM UK SOURCES TO COVER THE ENGINEERING
WORK AND THAT FINANCING AT A LATER STAGE COULD COME FROM
EUROPEAN AND ARAB SOURCES. DURING A RECENT DEMARCHE,
AMBASSADOR WAS REQUESTED BY JACK TO EXPLORE FEASIBILITY OF
US INVOLVEMENT IN THE PRELIMINARY ENGINEERING AND WHETHER
USG WOULD HAVE ANY OBJECTION TO THE PARTICIPATION OF
MORGAN STANLEY IN JOINT US-UK VENTURE. END SUMMARY

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1. SUBJECT PROJECT ENVISIONS THE CONSTRUCTION OF A 750-1,000
MW HYDROELECTRIC FACILITY ON THE UPPER MAZARUNI, IN CONJUNCTION
WITWA 200,000 MT PER ANNUM ALUMINUM SMELTER IN LINDEN.
GUYANESE OFFICIALS ESTIMATE COST IN 1976 US DOLLARS AT ONE
BILLION. AMONG HIGH LEVEL OFFICIALS, PROJECT IS REGARDED AS A
CATALYST FOR THE DEVELOPMENT OF GUYANA'S LARGELY UNINHABITED
INTERIOR AND HAS BECOME A LONG RANGE NATIONAL GOAL, TO ENSURE

THE COUNTRY'S ECONOMIC SURVIVAL, BOTH IN TERMS OF REDUCING DEPENDENCE ON FOSSIL FUELS AND IN INCREASING THE VALUE ADDED OF BAUXITE EXPORTS BY CONVERSION TO ALUMINUM.

2. PROJECT CONCEPT CAN BE TRACED BACK TO 1972, WHEN THE GOG COMMISSIONED ENERGOPROJEKT, THE YUGOSLAV CONSULTING FIRM, TO CARRY OUT A SURVEY OF ALTERNATE SITES AIMED AT FULFILLING GUYANA'S LONG RANGE ENERGY REQUIREMENTS, WHICH WERE LINKED TO THE PROPOSED SMELTER PROJECT. ON THE BASIS OF THE SURVEY, THE UPPER MAZARUNI SITE WAS SELECTED. SUBSEQUENTLY, THE SWEDISH FIRM SWECO WAS CONTRACTED TO REFINE THE ENERGOPROJEKT STUDY AND TO PRODUCE A "FINAL ENGINEERING REPORT". ALUSSUISSE WAS COMMISSIONED TO COMPLETE A FEASIBILITY STUDY FOR A SMELTER UP TO 220,000 MT CAPACITY. USING ITS OWN FINANCIAL RESOURCES, THE GOG ALSO BEGAN CONSTRUCTION OF THE ACCESS ROAD THROUGH DENSE JUNGLE TO THE SITE, REPORTEDLY SPENDING DURING TWO YEAR PERIOD ENDING IN 1977 UPWARDS OF US\$80 MILLION.

3. USING THE SWECO AND ALUSUISSE STUDIES AS A PROSPECTUS, THE GOG ATTEMPTED UNSUCCESSFULLY TO SECURE FINANCING FROM IFI'S, FRIENDLY GOVERNMENTS AND PRIVATE SOURCES. IT APPEARS THAT THIS EFFORT WAS PARTLY FRUSTRATED BY UNDP/IBRD HYDRO-ELECTRIC INVENTORY STUDY WHICH RECOMMENDED A SMALLER PROJECT AT KAIETEUR/AMALIA ON THE POTARO AND AMALIA RIVERS. LATE IN 1977, FOREIGN EXCHANGE SHORTAGES AND BUDGETARY PROBLEMS UNCLASSIFIED

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FORCED THE GOG TO SUSPEND FURTHER WORK ON THE PARTIALLY COMPLETED ACCESS ROAD AND TO SHIFT DEVELOPMENT PRIORITIES TO COASTAL AGRICULTURAL PROJECTS HAVING IFI SUPPORT.

4. ALTHOUGH SUSPENDED, THE MAZARUNI SCHEME CONTINUES TO LOOM LARGE IN THE GOG DEVELOPMENT STRATEGY. IN OCTOBER, 1977, A TASK FORCE, HEADED BY PATTERSON THOMPSON, CHAIRMAN OF THE BAUXITE INDUSTRY DEVELOPMENT COMPANY, WAS NAMED TO ENSURE "EARLY IMPLEMENTATION" OF THE PROJECT. RECENT ACTIVITIES ON THE PART OF THOMPSON AND MINISTER OF ENERGY AND NATURAL RESOURCES HUBERT JACK UNDERLINE THE FACT THAT THE GOG CONTINUES TO PROMOTE THE PROJECT INTERNATIONALLY.

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5. IN A MAY 31 DEMARCHE, JACK UPDATED AMBASSADOR ON RECENT GOG INITIATIVES TO IMPLEMENT THE SCHEME. AS A MEMBER OF THE PRIME MINISTER'S ENTOURAGE DURING THE RECENT VISIT TO THE UK, HE HAD MET WITH BROWNER AND ASSOCIATES, FORMERLY WITH BRITISH SMELTER, TO DISCUSS THE PROPOSED SMELTER PROJECT. ACCORDING TO JACK, BROWNER INDICATED HIS FIRM'S INTEREST IN GOING AHEAD WITH THE PROJECT, SUGGESTING THAT FINANCING COULD BE ARRANGED THROUGH ARAB BANKING INSTITUTIONS, SPECIFICALLY AL-TAJIR, AN ARAB BANK WITH EQUITY INTERESTS IN BROWNER. HOWEVER, BEFORE AN APPROACH COULD BE MADE, THE "PRELIMINARY ENGINEERING" FOR THE PROJECT, INCLUDING BOTH THE SMELTER AND THE HYDROELECTRIC FACILITY WOULD HAVE TO BE COMPLETED. ESTIMATED COST: 2.5 MILLION BRITISH POUNDS. THIS COULD BE FINANCED BY HILL SAMUELS, A UK INVESTMENT BANK OR POSSIBLY THE BRITISH GOVERNMENT UNDER AN ODM GRANT.

6. JACK ADDED THAT HE PREFERRED JOINT US-UK INVOLVEMENT IN THE ENTERPRISE, CITING THE NEED FOR US TECHNOLOGY. HE RELATED THAT THOMPSON HAD MET ON MAY 19 WITH MORGAN STANLEY MANAGING DIRECTOR T.K. BROOKER, WHO EXPRESSED AN INTEREST IN THE PROJECT. JACK ASKED THE AMBASSADOR TWO QUESTIONS:
1) WOULD THE USG BE WILLING TO PARTICIPATE IN FINANCING THE PRELIMINARY ENGINEERING, AND
2) WOULD USG OBJECT TO MORGAN STANLEY INVOLVEMENT.

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7. ON JUNE 2, AMBASSADOR CALLED ON THOMPSON TO CLARIFY PROJECT STATUS. THOMPSON CONFIRMED THAT HE HAD MET BROOKER, BUT ONLY BRIEFLY. HE SAID THAT EFFORTS WERE BEING MADE TO FINANCE PRELIMINARY ENGINEERING FOR THE PROJECT THROUGH BROWNER. HOWEVER, HE ADDED THAT OWING TO THE SIZE OF THE PROJECT, FINANCING WOULD HAVE TO COME FROM SEVERAL SOURCES, INCLUDING THE US AND THE IFI'S. WHEN ASKED ABOUT THE ROLE OF A PROPOSED RUSSIAN PROJECT TO TREBLE ALUMINA PRODUCTION (REF A), THOMPSON REPLIED THAT SMELTER WAS NOT LINKED TO

THIS PROJECT AND THAT ALUMINA REQUIREMENTS WOULD BE SUPPLIED BY EXISTING PLANT. INCREASED PRODUCTION FROM RUSSIAN PLANT (IF IT IS BUILT) WAS INTENDED TO COVER ALUMINA EXPORT COMMITMENTS.

8. ACTION REQUESTED. IN LIGHT OF RECENT EMPHASIS ON DEVELOPING ENERGY PROJECTS OVERSEAS WHICH FOCUS ON RENEWABLE ENERGY SOURCES (REF B), DEPARTMENT MAY WISH TO EXAMINE WITH AID/W US PARTICIPATION IN PRELIMINARY ENGINEERING STUDY FOR SUBJECT PROJECT. WHILE SUBJECT PROJECT WOULD BE FOCUSED PRIMARILY ON HYDROPOWER DEVELOPMENT AS RELATED TO ALUMINUM SMELTER, ENGINEERING STUDY COULD POSSIBLY BE STRUCTURED TO CONSIDER BROADER COUNTRY-WIDE APPLICATION OF POWER WHICH WOULD BE GENERATED BY PROJECT'S HYDROELECTRIC COMPONENT. USDOC, MAJOR PROJECTS, MAY BE ABLE TO PROVIDE FURTHER INFORMATION ON MORGAN STANLEY'S INTEREST IN PARTICIPATING IN JOINT US-UK VENTURE.
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